



# **Legislative Audit Division**

**State of Montana**

**Report to the Legislature**

**November 2002**

## **Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2002**

### **Department of Labor and Industry**

**This report contains ten recommendations. Issues addressed in the report include:**

- ▶ **Accounting controls.**
- ▶ **Federal program controls.**
- ▶ **Professional licensing laws.**

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report, when available, can be obtained by contacting:

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Office of Budget and Program Planning  
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# LEGISLATIVE AUDIT DIVISION

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November 2002

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for the two fiscal years ended June 30, 2002. Our report contains recommendations concerning accounting controls, federal program controls, and professional licensing laws.

We thank the department's commissioner and staff for their assistance and cooperation during the audit.

Respectfully submitted,

*(Signature on File)*

Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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## **Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2002**

## **Department of Labor and Industry**

Members of the audit staff involved in this audit were Laurie Barrett, Laurie H. Evans, John Fine, Jason Gilliam, Brenda Kedish, Hollie Koehler, Amber Long, and Jennifer Solem.

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## Appointed and Administrative Officials

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### Department of Labor and Industry

Wendy Keating	Commissioner Commissioner's Office, Office of Human Resources, Office of Legal Services
Jim Brown	Administrator Business Standards Division
Jerry Keck	Administrator Employment Relations Division
Ingrid Childress	Administrator Workforce Services Division
Tammy Peterson	Administrator Centralized Services Division
Keith Kelly	Administrator Unemployment Insurance Division
Mike McCarter	Judge Workers' Compensation Court
Steve Nelson	Administrator, Office of Community Services

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**Department of Labor and  
Industry**

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2002. We issued a qualified opinion on the financial schedules, which means the reader should use caution in applying the presented financial information.

The prior audit report contained nine recommendations. The department implemented eight and partially implemented one recommendation. This audit report contains ten recommendations to the department. The recommendations relate to recording transactions in accordance with state law and policy, complying with the Cash Management Improvement Act in drawing federal funds, improving controls over Trade Adjustment Assistance payments, assigning responsibility for fixed asset accounting, enhancing federal reporting compliance, developing fees commensurate with costs, and improving compliance with state laws.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department:

- A. Record accounting transactions in accordance with state law and policy.
- B. Implement an oversight control procedure to detect and correct accounting errors..... 11

Department Response: Concur. See page B-4.

Recommendation #2

We recommend the department follow the cash management improvement act agreement in drawing federal funds for administrative costs. .... 12

Department Response: Concur. See page B-5.



## Report Summary

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<u>Recommendation #3</u>	We recommend the department develop controls to minimize risk of unallowable payments to Trade Adjustment Assistance participants. ....	13
	<u>Department Response:</u> Concur. See page B-5.	
<u>Recommendation #4</u>	We recommend the department assign staff responsibilities for fixed asset accounting to improve controls over fixed asset records.....	14
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #5</u>	We recommend the department prepare and submit its unemployment benefits quarterly ETA 227 report on a timely basis. ....	15
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #6</u>	We recommend the department instruct the Department of Revenue to deposit collections from offsets for benefit overpayments in the clearing account as required by state law. ....	16
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #7</u>	We recommend the department develop fees commensurate with costs for directly billed information services. ....	16
	<u>Department Response:</u> Concur. See page B-6.	
<u>Recommendation #8</u>	We recommend the department:  A. Comply with applicable laws for boards and licensing programs.	

- B. Implement procedures to improve consistency of fee revenue recorded for the Boards of Pharmacy, Nursing Home Administrators, and Outfitters. .... 18

Department Response: Concur. See page B-7.

### Recommendation #9

We recommend the department:

- A. Adopt rules for Child Labor laws in compliance with section 41-2-117, MCA, or
- B. If necessary, seek an amendment to the statute requiring the adoption of rules governing Child Labor laws to make rule making permissive..... 18

Department Response: Concur. See page B-7.

### Recommendation #10

We recommend the commissioner:

- A. Prescribe duties, appoint members, and require meetings of the committee in compliance with section 2-15-1708, MCA, or
- B. Seek legislation to eliminate the requirements related to the Safety Employment Education and Training Advisory Committee..... 19

Department Response: Concur. See page B-8.

# Introduction

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## Introduction

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2002. The objectives of the audit were to:

1. Determine department compliance with applicable laws and regulations.
2. Make recommendations for improvements in the management and internal controls of the department.
3. Determine if the financial schedules present fairly the results of operations of the department for the two fiscal years ended June 30, 2002.
4. Determine the implementation status of prior audit recommendations.

This report contains ten recommendations to the department. In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not specifically included in the report, but have been discussed with management.

As required by section 17-8-101(6), MCA, we audited and are reporting on the reasonableness of internal service fund type fees and fund equity balances at the department. The statute requires fees and charges for services, which are deposited into internal service funds, be based upon commensurate costs. The department has two active Internal Service Funds administered by the Commissioner's Office, Central Services Division, and one administered by the Business Standards Division. The Internal Service Funds are discussed further on page 16.

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## Background

The Department of Labor and Industry operates as a part of a national employment, unemployment insurance benefits, and training system that assists individuals in preparing for and finding jobs. The department assists employers in finding workers and pays workers

## Introduction

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cash benefits if they are temporarily unemployed through no fault of their own.

The department enforces state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health-safety laws. In addition, the department conducts research and collects statistics, and provides adjudicative services in labor-management disputes. As a result of reorganization enacted in Chapter 483 Laws of 2001, the department also administers building codes enforcement, weights and measures, and professional and occupational licensing.

The department is organized into five divisions, five administratively attached units, and the Commissioner's Office. A brief description of the divisions and administratively attached units follows:

Commissioner's Office, Office of Legal Services and Office of Human Resources - The Commissioner's Office provides administrative and support services to the department. It is responsible for the overall administration of the department, including direction of program focus. The Office of Legal Services provides all legal services for the department, staffing the Board of Labor Appeals, and the Professional and Occupational Licensing Boards. The Office of Human Resources provides management of human resources.

Centralized Services Division - The Centralized Services Division provides support for the department's computers, payroll, accounting, purchasing, budgeting, and hearing function.

Employment Relations Division - Employment Relations administers and enforces state statutes related to wage and hours, labor relations, workers' compensation, workplace safety, contractor registration, and human rights.

Unemployment Insurance Division - Unemployment Insurance administers the state's unemployment insurance laws and related federal programs. The division operates through the Administrative, Benefits, Program Support, and Telephone Claims Bureaus.

Workforce Services Division - Workforce Services provides employment and training programs, labor force statistics, veterans' services, and trade adjustment assistance.

Business Standards Division - Business Standards oversees professional and occupational licensing, weights and measures, and building codes administration.

Administratively attached units include:

Workers' Compensation Court - The court provides a legal forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease.

Human Rights Commission - The commission hears appeals of regulatory action under the Montana Human Rights Act and the Governmental Code of Fair Practices.

Board of Labor Appeals - The board hears disputes concerning the administration of Montana unemployment insurance laws.

Board of Personnel Appeals - The board mediates collective bargaining disputes between public employees and employers.

Office of Community Services - Community Services provides administration of the federal Corporation for National Service programs (Ameri Corps and Campus Corps) and community service and volunteer efforts statewide.

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### Unemployment Insurance

The department administers the state's unemployment insurance fund. The state law which establishes the fund coordinates with federal unemployment law to eliminate overlapping coverage and premiums. State law sets the methodology for calculating employer premiums, determining unemployment benefits, and maintaining funds to finance the program. Unemployment insurance activity is recorded on the state's accounting records in the Expendable Trust Fund type in fiscal year 2000-01 and in the Enterprise Fund type in fiscal year 2001-02.

Under section 39-51-301(5), MCA, the department delegates responsibility for billing and collecting employer premiums, including rating the loss experience of employers and calculating the premiums, to the Department of Revenue. Section 39-51-402, MCA, directs deposit of unemployment insurance premiums in a bank account called the "clearing account," then it requires transfer of the collections to Montana's Unemployment Trust Fund account in the

## Introduction

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United States Treasury. To pay unemployment benefits, the department draws funds from the state's account in the U.S. Treasury and deposits the funds in another bank account called the "benefits account." Unemployment benefits are paid from this account. In addition to paying benefits for employees of covered employers, the department also pays benefits to qualifying former employees of federal and military organizations. The department bills the federal government for these benefits and receives reimbursement to the state's account in the Unemployment Trust Fund. The federal government also provides grant funds to defray costs of administering the unemployment insurance program. The amounts available for administration are determined on a formula basis and spent as appropriated by the legislature.

Section 39-51-404(4), MCA, sets an assessment on taxable wages paid by employers. The resources in the employment security account are appropriated by the legislature to finance various employment related programs.

# Prior Audit Recommendations

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## **Prior Audit Recommendations**

The prior financial-compliance audit of the Department of Labor and Industry for the two fiscal years ended June 30, 2000, contained nine recommendations. The department implemented eight recommendations and partially implemented one recommendation. Further discussion of issues related to the partially implemented recommendation concerning the department's asset records appears on page 12.

The prior financial-compliance audit of the Department of Commerce included two recommendations related to professional and occupational licensing functions transferred to the department. The department has developed a corrective action plan for these issues, but has not completed it. Since the report in which the recommendations were made was issued in December 2001, we make no further recommendations at this time. We will follow up on implementation of cost allocation adjustment for board payments for a new computer system and specific rule and law changes in the next audit.





# Findings and Recommendations

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## Accounting Errors and Misstatements

State law requires the Department of Labor and Industry (department) to input all necessary transactions before the end of the fiscal year to present the receipt, use and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. The Department of Administration establishes state accounting policy to implement this law. The following sections describe various errors in the department's accounting records.

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## Unemployment Trust Revenue Misclassification

The department recorded federal assistance as interest earnings in the Unemployment Insurance Enterprise Fund. As a result, federal assistance revenues were understated and interest earnings were overstated by \$25,439,034 in the Enterprise Fund in fiscal year 2001-02. Total revenue in the Enterprise Fund was not affected. The impact of this error is discussed in our qualified opinion on page A-3.

A department official said the department did not have appropriate revenue accounts established for the federal assistance because the receipts were not expected, and the activity occurred in the last quarter of the fiscal year. In addition, staff still believed the Department of Administration would not create new revenue accounts because this activity had been discouraged when the state's accounting system, SABHRS, first came online. We noted that the payments, which are deposited directly in the Unemployment Trust Fund account administered by the federal treasury, were accurately reported to the department on the monthly report from the trust.

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## Subsequent Injury Fund Estimated Claims Liability

Section 39-71-907, MCA, limits the liability of workers' compensation insurers to 104 weeks of compensation and medical benefits on behalf of certain previously injured workers. Thereafter, the Subsequent Injury Fund has liability for all compensation and the cost of all medical care for these workers resulting from a workers' compensation claim. The department did not record the estimated claims liability for these claims on the state's records in fiscal year 2001-02. As a result, estimated claims liability was understated and fund balance overstated at June 30, 2002 in the Enterprise Fund.

## Findings and Recommendations

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Department personnel indicated that recording a liability was not necessary because section 39-71-915, MCA, required the department to maintain the solvency of the fund by assessing insurers each year for a pro rata share of the paid claims of the previous fiscal year. However, the pay-as-you go funding mechanism enacted in law does not extinguish or measure the long-term liability for workers' compensation claims beyond the second year following an insurable job related injury.

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### Property Held in Trust

Department personnel recorded collections from uninsured employers as property held in trust. Under state policy, the property held in trust account is used to report the liability to repay amounts held in a fiduciary capacity for others. Uninsured employers pay fines to the department for periods when the employer did not carry proper Workers' Compensation insurance. The department also bills uninsured employers for actual medical claims paid by the department. Therefore, lost wages and payments made by uninsured employers are not held in a fiduciary capacity.

At June 30, 2002, the department reported a property held in trust account balance of \$446,839 in its Uninsured Employers fund. As a result, fund balance was understated by \$446,839 at that date. Fines and Forfeits revenue was understated by \$251,749 in fiscal year 2001-02 and \$195,090 in previous years in the Special Revenue Fund.

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### Insurer Deposits

Accounting records show that the department is holding deposits worth \$285,000 from five private workers' compensation insurers under provisions of section 39-71-2206, MCA. Chapter 310, Laws of 1997, repealed the deposit law and required the department to transfer all deposits held in trust by the department to the insurers who made the deposits by December 31, 1997. The department returned the deposits to the appropriate insurers pursuant to state law. However, the department did not adjust the accounting records. As a result, property held in trust is overstated by \$285,000 in the Agency Fund at June 30, 2002.

## Findings and Recommendations

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### **Duplicate Revenue Recognition**

Section 39-71-1004, MCA, authorizes the department to assess a fee on workers' compensation insurers to fund the industrial accident rehabilitation account. In fiscal year 2000-01, the department recorded revenue at the time the assessment was billed and again when the assessment payment was received. The department recorded the same revenue twice in this year.

In fiscal year 2001-02, department personnel reduced revenue and the receivable to reflect the collection of the previous year's assessment. As a result, Charges for Services revenue in the Special Revenue Fund is overstated in fiscal year 2000-01 and is understated in 2001-02 by \$196,720.

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### **Expenditure Classification Error**

The department recorded Apprenticeship in Training Program grants from the General Fund as grants from federal sources in both fiscal years. As a result, Grants from Federal Sources are overstated and Grants from State Sources are understated by \$140,000 in the General Fund in fiscal years 2000-01 and 2001-02. A department accountant said the department established the expenditure classification for these grants in error.

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### **Uninsured Employers Fund Receivable**

The department operates the Uninsured Employers Fund to pay the wage and medical claims of injured workers whose employers did not carry workers' compensation insurance. The department bills the employers for benefits paid and for fines assessed for uninsured periods. During fiscal year 2001-02, the department did not record an accounts receivable for the amounts billed but not yet paid by employers. According to department personnel, uninsured employers typically have a high risk of going bankrupt, so collections on the accounts are limited. By not recording the amounts billed, accounts receivable is understated by \$1,672,525, allowance for doubtful accounts is understated by \$1,555,448 and fund balance is understated by \$117,077 in the State Special Revenue Fund.

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### **Unemployment Insurance Fund Cash**

The Department of Administration reclassified the Unemployment Insurance Trust Fund as an Enterprise Fund in fiscal year 2001-02 to

## Findings and Recommendations

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comply with changes in accounting principles. We noted \$332,456 in unemployment insurance cash was still recorded in the Expendable Trust Fund at June 30, 2002. Department personnel said the Expendable Trust Fund contained prior year activity, which had to be recorded there. However, the fund placement of the cash balance should have been to the Enterprise Fund prior to closing fiscal year 2001-02 records.

As recommended in the previous audit, the department performed a reconciliation of the unemployment insurance benefits bank account to cash recorded on the state's accounting records. The reconciliation for June 30, 2002, documented checks prepared manually by the department that had not been subtracted from the state's accounting records. Although the reconciliation was completed within the following month, it was not completed prior to the year-end close. As a result, the cash balance for the Unemployment Insurance Fund was overstated by \$407,630 at June 30, 2002.

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### Accounting Oversight

The errors described in the previous eight sections indicate the department can improve its controls over recording financial activity in accordance with state law and policy. We detected the errors by reviewing trial balances and financial schedules compiled from the department's accounting records for amounts that appeared unusual or unreasonable. The department could implement a similar monitoring review of the accounting records to detect and correct errors. In addition, department management should ensure that reconciliations and other control procedures are performed in time for corrections to be made prior to the end of the fiscal year.

## Findings and Recommendations

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### **Recommendation #1**

**We recommend the department:**

- A. Record accounting transactions in accordance with state law and policy.**
- B. Implement an oversight control procedure to detect and correct accounting errors.**

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### **Federal Program Controls**

The department receives funding from several federal programs. Federal assistance is received directly from the U.S. Department of Labor for the Employment Service and Unemployment Insurance Administration grants and as a subgrantee from another state agency for the Temporary Assistance for Needy Families (TANF) grant. The following sections discuss situations in which department procedures can be changed to improve compliance with federal regulations and reduce risk of loss of federal program funds.

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### **Cash Management**

The Employment Service and Unemployment Insurance grants provide financial assistance to administer the department's workforce services offices and unemployment insurance program. Procedures to draw federal cash to cover expenditures of these grants are specified in an agreement between the state and the U.S. Treasury negotiated in compliance with the federal Cash Management Improvement Act (CMIA). Under the CMIA agreement, the department is directed to request funds weekly on Wednesday based on the amount of actual cash outlays for administrative costs incurred in the previous week. For electronic funds transfers, such as payroll, the department may request funds the day before the disbursement.

We inspected department records of cash draws for these two programs. Of 21 Employment Service draws reviewed, 16 were not executed in accordance with the CMIA agreement. There were eight instances where at least a week passed in which no cash draws were made. Of 97 Unemployment Insurance draws reviewed, 67 did not comply with the CMIA agreement. By not complying with terms of

## Findings and Recommendations

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the agreement, the department causes the state to lose interest earnings on state funds used to pay federal program expenditures which are not drawn weekly.

A department official said the department prepares daily cash balances for the grants and draws funds when the cash balances are negative. Since there has been turnover in the department's accounting function, accounting management had not reviewed the CMIA agreement to ensure current department practice complied with the agreement. According to department management, department personnel met with the Department of Administration in April 2002 to update the department's understanding of CMIA requirements. Since that time, the department has been complying with the CMIA agreement, the department official said.

### **Recommendation #2**

**We recommend the department follow the cash management improvement act agreement in drawing federal funds for administrative costs.**

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### **Trade Adjustment Assistance Training Costs**

The department's federally funded Trade Adjustment Assistance (TAA) program pays certain living expenses for participants who seek training out of state after losing a job because of trade induced business factors. In testing TAA participant files, we noted Payment Request Forms signed by the participant prior to relocating for training. Each file contained as many as 30 Payment Request Forms signed on the same date by the participant. When payments were made, a department employee authorized the payment and entered the date of authorization.

A department program supervisor said the department asks participants to sign multiple forms because it is difficult to obtain signed forms to make payments on time when the participant lives out of state. The number of forms needed is estimated and the ones not needed are destroyed, the supervisor said. A department manager said he understood the reason for this procedure, but said it

## Findings and Recommendations

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does increase risk of misappropriation of program funds. To ensure program costs are allowable, the department should improve controls to confirm continued participant eligibility.

### **Recommendation #3**

**We recommend the department develop controls to minimize risk of unallowable payments to Trade Adjustment Assistance participants.**

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### **Fixed Assets**

The department records buildings and equipment used in its operations on the state's Asset Management system. Federal regulations state that when a fixed asset with a current fair market value of \$5,000 or more is no longer needed for a federal program it may be sold, with the federal agency receiving proceeds proportionate to its participation in the original purchase of the asset. To comply with this regulation, department asset records must include information as to federal participation in the purchase of assets. In our last audit, we identified a property disposal where the department did not comply with federal regulations. Although the department implemented corrective action on this transaction, we noted other conditions that indicate the department could improve controls over fixed asset transactions.

- ▶ We noted several instances where property purchased with federal funds was recorded in a state special revenue fund on the state's Asset Management system. Department personnel said this reporting situation occurs when funding to purchase the item comes from several programs. The federal participants are charged a share through the department's cost allocation system, but the asset remains identified as state-owned on the Asset Management system. As a result, the federal ownership share cannot be determined at the time of disposal.
- ▶ The department designates an accountant in its Central Services Division as property manager. The property manager coordinates the periodic physical inventory and updates the Asset Management system for fixed asset purchases and deletions. According to the property manager, it is the responsibility of the property coordinator at each department location to notify the federal grantor agency if disposal property

## Findings and Recommendations

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purchased with federal funds has a current value greater than \$5,000. Personnel at the seven field offices we visited said they would consult the property manager if a disposal occurred. We could not locate documentation of control procedures that assigned responsibility for meeting federal requirements related to disposal of assets purchased with federal funds.

- ▶ In our review of the property records, we noted computer equipment valued at \$428,400 on the asset records had been removed from service. We reported this item in our previous report. The value related to retired assets should be adjusted on the accounting records when the item is removed from service if the property will not be placed in service and is not expeditiously surplus.
- ▶ We noted another building had been recorded twice, causing an asset overstatement of \$133,999.

The department could improve the accuracy of its fixed asset records by formalizing control procedures which assign responsibility for specific aspects of fixed asset accounting. In particular, the role of the property coordinator in updating the records for federal participation and deletion of assets which have been removed from service should be clearly stated. Since the property manager coordinates the physical inventory, this position appears to be well situated to monitor property records for duplications, disposals, and items removed from service.

### **Recommendation #4**

**We recommend the department assign staff responsibilities for fixed asset accounting to improve controls over fixed asset records.**

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### **Federal Reporting**

Federal regulations require the department to submit various reports on financial activity in programs receiving federal financial assistance. In connection with its unemployment insurance program, the department is required to report overpayment and collection activities quarterly. The department did not submit the required ETA 227 reports between September 2001 and June 2002. A department manager said the federal government changed the



## Findings and Recommendations

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format of the ETA 227 just as the department put its new benefits system, MISTICS, in service. Therefore, the module designed to generate the ETA 227 did not interface with the new form. As a result, the department was not in compliance with federal regulations requiring this report. Data on detection and collection of unemployment benefit overpayments was not available to state and federal program managers. The department submitted these reports in September 2002.

### **Recommendation #5**

**We recommend the department prepare and submit its unemployment benefits quarterly ETA 227 report on a timely basis.**

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### **Unemployment Insurance Benefit Overpayment Collections**

To expedite collection of certain unemployment insurance benefit overpayments, the department refers the unpaid balances to the Department of Revenue (DOR) for offset against tax refunds or other state payments. When DOR collects on these accounts, it notifies the department as to which overpayments and penalties were collected and moves the cash to the department on an inter-unit journal.

Labor personnel record the receipts in the General Fund as Property Held in Trust. The department then issues warrants for the benefit overpayment amounts collected. The department subsequently deposits the warrants in the unemployment insurance benefit bank account. A department official said the department inputs the data from the collection advice in the department's benefits system and offsets the amount of the deposited warrant on the subsequent cash draw from the Federal Unemployment Trust Fund.

Section 39-51-402(2), MCA, states all money payable to the unemployment insurance fund, upon receipt by the department, must be immediately deposited in the clearing account. The unemployment insurance clearing account, established in statute, is currently administered by DOR under its contract with the department to collect unemployment insurance premiums. The

## Findings and Recommendations

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department can improve efficiency and ensure compliance with state law by instructing DOR to deposit collections from offsets for benefit overpayments in the clearing account.

### **Recommendation #6**

**We recommend the department instruct the Department of Revenue to deposit collections from offsets for benefit overpayments in the clearing account as required by state law.**

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### **Internal Service Fund**

The department operates an internal service fund to accumulate costs directly billed to its programs by its information systems unit. Section 17-8-101, MCA, requires fees and charges for services deposited in the internal services fund type to be based on commensurate costs. Federal and state regulations allow the department to maintain 60 days of working capital in the account, approximately 17 percent of annual expenditures. When we analyzed the relationship between fiscal year 2001-02 expenditures and fund balance, we found the balance was 82 percent of the expenditures for the year. A department administrator said the services billed have never been reconciled to actual expenditures incurred. As a result, Workforce Services Division, Unemployment Insurance Division, and Research and Analysis Bureau programs have been overcharged approximately \$57,000.

### **Recommendation #7**

**We recommend the department develop fees commensurate with costs for directly billed information services.**

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### **Professional and Occupational Licensing**

The Professional and Occupational Licensing boards were transferred to the department from the Department of Commerce on July 1, 2001, as part of the legislative reorganization enacted in Chapter 483, Laws of 2001. The department integrated 33 state boards and three licensing programs into its Business Standards Division. We tested compliance with state laws directly related to the activities of 11 state boards and two of the licensing programs.

## Findings and Recommendations

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Of the laws tested, we found the following instances of non-compliance.

- ▶ The Board of Pharmacy and the Board of Nursing Home Administrators recorded fees collected by the boards in improper revenue accounts. Although the boards properly collected and deposited all fees received, we found board personnel did not record the fees in accounts which corresponded to the fees collected. A department manager said the department's licensing database is maintained solely by each board's licensing specialist and there are no other personnel conducting checks and balances to ensure accurate recording.
- ▶ During our audit, we found the Board of Outfitters recorded revenue inconsistently. Therefore, the board cannot monitor compliance with licensing requirements by comparing licenses issued to the types of fees collected and recorded. A department manager attributed the errors to revenue accounts with overlapping fee descriptions. The board can improve controls over fee revenue by defining revenue codes to precisely correspond to fees required by state law.
- ▶ Section 37-7-604(4), MCA, requires applicants for a wholesale pharmacy license to submit specific written documentation of their place of business and operations. When we reviewed wholesale drug distributor files, we noticed required documentation was missing and not available. A department official said the current license application sent to wholesale drug distributors does not request statutorily required verification of storage, liability insurance, security, record keeping or protocol. As a result, many wholesale drug distributor files do not document that the distributor meets the requirements for licensure. According to department officials, board staff redesigned the wholesale drug distributor license application to meet statutory requirements subsequent to completion of the audit.
- ▶ The Board of Chiropractors has not adopted a rule addressing the form and display of a license as required by section 37-12-201, MCA. In addition, the board is not enforcing the application requirement of section 37-12-302, MCA, that an application must be received 21 days prior to a meeting of the board. The board administrator said the board now uses the national exam, so it does not need applications 21 days before a board meeting. The board plans to seek legislation to amend the statute, the administrator said.

## Findings and Recommendations

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- ▶ Section 37-19-303, MCA, specifies that the mortician's examination be held each year on the second Wednesday in July. Since the Board of Funeral Services has approved the use of a national examination and no longer administers the exam, it does not set the exam date. We also noted that the Board of Funeral Services has not defined hazardous implants in administrative rules, as required by section 37-19-705, MCA, and the board has not specified the fee a cemetery must pay for an audit authorized under 37-19-808, MCA. The board administrator said the board has requested legislation to repeal the statutory requirement to set the examination date.

### **Recommendation #8**

**We recommend the department:**

- A. Comply with applicable laws for boards and licensing programs.**
- B. Implement procedures to improve consistency of fee revenue recorded for the Boards of Pharmacy, Nursing Home Administrators, and Outfitters.**

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## **Child Labor Laws**

Section 41-2-117, MCA, states the department shall adopt rules including definition of terms, to carry out the purposes of the Child Labor Laws. The department has not adopted administrative rules for these laws. Department legal counsel said federal child labor laws are similar to the state laws and federal regulations provide sufficient legal structure in this area. Therefore, the department believes state rules would duplicate existing requirements and rule-making authority should be permissive.

### **Recommendation #9**

**We recommend the department:**

- A. Adopt rules for Child Labor laws in compliance with section 41-2-117, MCA, or**
- B. If necessary, seek an amendment to the statute requiring the adoption of rules governing Child Labor laws to make rule making permissive.**

## Findings and Recommendations

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### **Safety Employment Advisory Committee**

Section 2-15-1708, MCA, established a Safety Employment Education and Training Advisory Committee composed of seven members appointed by the Commissioner of Labor and Industry for three year terms. Under the law, the commissioner prescribes duties of the committee, including recommending to the commissioner methods by which the department may implement safety education in secondary and vocational-technical programs, facilitate implementation of employer safety programs, and universally increase safety awareness in the workplace. The law specifies that the committee meet every three months. We found that the committee has not met for five years and terms of all members had expired. A department administrator said legislation authorizing the committee was enacted by the 1993 Legislature as part of the Safety Culture Act. Initially, the committee met frequently to develop rules to governing the Safety Culture Act. Once the rules were written, the committee had no meaningful tasks and committee members had little incentive to meet or serve, the administrator said.

#### **Recommendation #10**

**We recommend the commissioner:**

- A. Prescribe duties, appoint members, and require meetings of the committee in compliance with section 2-15-1708, MCA, or**
- B. Seek legislation to eliminate the requirements related to the Safety Employment Education and Training Advisory Committee.**

# **Independent Auditor's Report & Department Financial Schedules**

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Labor and Industry for each of the fiscal years ended June 30, 2001, and 2002. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities and cash flows.

As discussed in note 5, the \$37,432,264 of investment earnings revenue recorded in the Enterprise Fund on the Schedule of Total Revenues & Transfers-In for the fiscal year ended June 30, 2002, includes federal revenue from two sources within the Unemployment Insurance program. As a result, investment earnings revenue is overstated and federal revenue is understated by \$25,439,034 in the Enterprise Fund in fiscal year 2001-02.

In our opinion, except for the matter discussed in paragraph four, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Department of Labor and Industry for each of the fiscal years ended June 30, 2001, and 2002, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*(Signature on File)*

James Gillett, CPA  
Deputy Legislative Auditor

August 30, 2002

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DEPARTMENT OF LABOR & INDUSTRY  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND BALANCE: July 1, 2001	\$ (26,180)	\$ 185,837,399	\$ 10,686	\$ 1,031,211	\$ 2,120,555	\$ 296,221		\$ 0
PROPERTY HELD IN TRUST: July 1, 2001							\$ 716,649	
ADDITIONS								
Budgeted Revenues & Transfers-In	52,167	62,815,812		15,816	101,524,304	4,215,159		
NonBudgeted Revenues & Transfers-In	649	32,872		30	2,416	949		23,287
Prior Year Revenues & Transfers-In Adjustments		1,469,091	(10,686)		118,870	984		
Direct Entries to Fund Balance	1,936,579	(167,003,423)			176,283,760	69,861		755,665
Additions to Property Held in Trust							140,196	
Total Additions	1,989,395	(102,685,648)	(10,686)	15,846	277,929,350	4,286,953	140,196	778,952
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	1,969,962	66,876,409		349,074	84,234,409	4,135,762		
NonBudgeted Expenditures & Transfers-Out		(124,737)			(1,560)	62,812		7,957
Prior Year Expenditures & Transfers-Out Adjustments	902	905,961		154,572	3,576	1,190		
Reductions in Property Held in Trust							168,653	
Total Reductions	1,970,864	67,657,633		503,646	84,236,425	4,199,764	168,653	7,957
FUND BALANCE: June 30, 2002	\$ (7,649)	\$ 15,494,118	\$ 0	\$ 543,411	\$ 195,813,480	\$ 383,410		\$ 770,995
PROPERTY HELD IN TRUST: June 30, 2002							\$ 688,192	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Agency Fund</u>	<u>Expendable Trust Fund</u>
FUND BALANCE: July 1, 2000	\$ <u>(141,903)</u>	\$ <u>12,783,681</u>	\$ <u>0</u>	\$ <u>635,525</u>	\$ <u>(255,195)</u>	\$ <u>433,809</u>		\$ <u>162,310,925</u>
PROPERTY HELD IN TRUST: July 1, 2000							\$ <u>717,930</u>	
ADDITIONS								
Budgeted Revenues & Transfers-In		47,054,055		1,625,597	335,207	1,532,105		43,051
NonBudgeted Revenues & Transfers-In		109,182	10,686	5	1,498	8,481		73,444,574
Prior Year Revenues & Transfers-In Adjustments		833,804						7,577
Cash Transfers In(Out)								
Direct Entries to Fund Balance	2,026,666	2,567,113			2,103,066	(3,529)		8,618,165
Additions To Property Held in Trust							<u>94,572</u>	
Total Additions	<u>2,026,666</u>	<u>50,564,154</u>	<u>10,686</u>	<u>1,625,602</u>	<u>2,439,771</u>	<u>1,537,057</u>	<u>94,572</u>	<u>82,113,367</u>
REDUCTIONS								
Budgeted Expenditure & Transfers-Out	1,916,396	52,447,914		1,229,916	233,752	1,702,099		
NonBudgeted Expenditure & Transfers-Out		(139,050)			4,521	(27,122)		66,877,956
Prior Year Expenditure & Transfers-Out Adjustments	(5,453)	2,240,997			(174,252)	(332)		506,912
Reductions in Property Held in Trust							<u>95,853</u>	
Total Reductions	<u>1,910,943</u>	<u>54,549,861</u>		<u>1,229,916</u>	<u>64,021</u>	<u>1,674,645</u>	<u>95,853</u>	<u>67,384,868</u>
FUND BALANCE: June 30, 2001	\$ <u>(26,180)</u>	\$ <u>8,797,974</u>	\$ <u>10,686</u>	\$ <u>1,031,211</u>	\$ <u>2,120,555</u>	\$ <u>296,221</u>		\$ <u>177,039,424</u>
PROPERTY HELD IN TRUST: June 30, 2001							\$ <u>716,649</u>	

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Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits		\$ 6,009,040						\$ 6,009,040
Taxes	\$ 374	9,681						10,055
Charges for Services		8,785,853			\$ 101,045	\$ 2,346,179		11,233,077
Investment Earnings		135,644		\$ 15,846	37,432,264		\$ 23,287	37,607,041
Fines and Forfeits	52,167	25,201						77,368
Sale of Documents, Merchandise and Property		17,937			173,590			191,527
Rentals, Leases and Royalties		22,913				984		23,897
Contributions and Premiums					59,312,466			59,312,466
Miscellaneous	275	337,668			379,203	948		718,094
Grants, Contracts, Donations and Abandonments		6,527,199						6,527,199
Other Financing Sources		65,395				345		65,740
Federal		42,381,244	\$ (10,686)		4,247,022			46,617,580
Federal Indirect Cost Recoveries						1,868,636		1,868,636
Total Revenues & Transfers-In	52,816	64,317,775	(10,686)	15,846	101,645,590	4,217,092	23,287	170,261,720
Less: Nonbudgeted Revenues & Transfers-In	649	32,872		30	2,416	949	23,287	60,203
Prior Year Revenues & Transfers-In Adjustments		1,469,091	(10,686)		118,870	984		1,578,259
Actual Budgeted Revenues & Transfers-In	52,167	62,815,812		15,816	101,524,304	4,215,159		168,623,258
Estimated Revenues & Transfers-In	374	61,637,761			595,017	4,390,677		66,623,829
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 51,793	\$ 1,178,051	\$ 0	\$ 15,816	\$ 100,929,287	\$ (175,518)	\$ 0	\$ 101,999,429
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>								
Licenses and Permits		\$ (103,561)						\$ (103,561)
Taxes	\$ (374)	(9,637)						(10,011)
Charges for Services		(1,033,452)			\$ (105,955)	\$ 379,604		(759,803)
Investment Earnings		(220,111)		\$ 15,816	37,195,554			36,991,259
Fines and Forfeits	52,167	(2,484,967)						(2,432,800)
Sale of Documents, Merchandise and Property		(8,569)			20,103			11,534
Rentals, Leases and Royalties		(27,087)				(5,832)		(32,919)
Contributions and Premiums					59,312,466			59,312,466
Miscellaneous					379,197			379,197
Grants, Contracts, Donations and Abandonments		926,005						926,005
Other Financing Sources		32,182				345		32,527
Federal		4,107,248			4,127,922			8,235,171
Federal Indirect Cost Recoveries						(549,635)		(549,635)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 51,793	\$ 1,178,051	\$ 0	\$ 15,816	\$ 100,929,287	\$ (175,518)	\$ 0	\$ 101,999,429

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DEPARTMENT OF LABOR & INDUSTRY  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Expendable Trust Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>							
Licenses and Permits	\$ 26,000						\$ 26,000
Taxes					\$ 8,481		8,481
Charges for Services	2,473,441			\$ 922	1,445,423		3,919,786
Investment Earnings	171,771		\$ 25,602	173,011		\$ 11,847,501	12,217,885
Fines and Forfeits	2,201,787						2,201,787
Sale of Documents, Merchandise and Property	110,942			162,772			273,714
Rentals, Leases and Royalties					7,146		7,146
Contributions and Premiums						57,711,145	57,711,145
Grants, Contracts, Donations and Abandonments	5,346,288						5,346,288
Other Financing Sources	23,869		1,600,000				1,623,869
Federal	37,642,943	\$ 10,686				3,936,556	41,590,185
Federal Indirect Cost Recoveries					79,536		79,536
Total Revenues & Transfers-In	47,997,041	10,686	1,625,602	336,705	1,540,586	73,495,202	125,005,822
Less: Nonbudgeted Revenues & Transfers-In	109,182	10,686	5	1,498	8,481	73,444,574	73,574,426
Prior Year Revenues & Transfers-In Adjustments	833,804					7,577	841,381
Actual Budgeted Revenues & Transfers-In	47,054,055		1,625,597	335,207	1,532,105	43,051	50,590,015
Estimated Revenues & Transfers-In	48,700,076		2	5,109,000	1,948,396		55,757,474
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,646,021)	\$ 0	\$ 1,625,595	\$ (4,773,793)	\$ (416,291)	\$ 43,051	\$ (5,167,459)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>							
Licenses and Permits	\$ 11,000						\$ 11,000
Charges for Services	(1,209,534)			\$ (424,079)	\$ 793,423		(840,190)
Investment Earnings	227,832		\$ 25,596	31,514		\$ 43,051	327,993
Fines and Forfeits	1,130,957			(4,350,000)			(3,219,043)
Sale of Documents, Merchandise and Property	(6,695)			(30,228)			(36,923)
Rentals, Leases and Royalties					(210)		(210)
Contributions and Premiums	(5,148,000)						(5,148,000)
Grants, Contracts, Donations and Abandonments	(633,204)			(1,000)			(634,204)
Other Financing Sources	23,869		1,599,999				1,623,868
Federal	3,957,754						3,957,754
Federal Indirect Cost Recoveries					(1,209,504)		(1,209,504)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,646,021)	\$ 0	\$ 1,625,595	\$ (4,773,793)	\$ (416,291)	\$ 43,051	\$ (5,167,459)

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Additional information is provided in the notes to the financial schedules beginning on page A-11

DEPARTMENT OF LABOR & INDUSTRY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUB-CLASS) EXPENDITURES & TRANSFERS-OUT	BUSINESS STANDARDS DIVISION	COMMISSIONER'S OFFICE/CSD	EMPLOYMENT RELATIONS DIVISION	OFFICE OF COMMUNITY SERVICES	UNEMPLOYMENT INSURANCE DIVISION	WORK FORCE SERVICES DIVISION	WORKERS COMPENSATION COURT	Total
Personal Services								
Salaries	\$ 3,571,736	\$ 2,272,337	\$ 3,651,958	\$ 89,982	\$ 3,146,971	\$ 11,078,683	\$ 241,741	\$ 24,053,408
Other Compensation	103,775	6,600	7,451			975		118,801
Employee Benefits	1,014,573	568,639	980,902	25,092	866,410	3,092,047	56,544	6,604,207
Personal Services-Other		63,164				(1,560)		61,604
Total	<u>4,690,084</u>	<u>2,910,740</u>	<u>4,640,311</u>	<u>115,074</u>	<u>4,013,381</u>	<u>14,170,145</u>	<u>298,285</u>	<u>30,838,020</u>
Operating Expenses								
Other Services	1,132,436	278,152	699,279	18,693	1,598,280	2,406,884	24,857	6,158,581
Supplies & Materials	494,455	206,685	396,876	9,575	141,946	1,004,511	27,118	2,281,166
Communications	367,183	73,798	184,402	6,039	375,505	456,875	5,382	1,469,184
Travel	533,506	46,641	187,095	44,491	68,879	477,497	9,067	1,367,176
Rent	242,399	156,828	409,336	9,021	88,875	625,007	22,169	1,553,635
Utilities	2,009		4,857		13,071	109,116	2,428	131,481
Repair & Maintenance	121,470	58,386	56,012	1,014	114,955	377,519	6,547	735,903
Other Expenses	2,592,086	181,396	287,258	24,608	350,105	1,338,126	24,349	4,797,928
Goods Purchased For Resale	12,441							12,441
Total	<u>5,497,985</u>	<u>1,001,886</u>	<u>2,225,115</u>	<u>113,441</u>	<u>2,751,616</u>	<u>6,795,535</u>	<u>121,917</u>	<u>18,507,495</u>
Equipment & Intangible Assets								
Equipment	232,588	(27,589)	96,586		(10,756)	63,461		354,290
Intangible Assets						34,848		34,848
Total	<u>232,588</u>	<u>(27,589)</u>	<u>96,586</u>		<u>(10,756)</u>	<u>98,309</u>		<u>389,138</u>
Capital Outlay								
Other Improvements						4,385		4,385
Total						<u>4,385</u>		<u>4,385</u>
Grants								
From State Sources	115					173,916		174,031
From Federal Sources				1,976,754		20,770,006		22,746,760
From Other Sources						162,500		162,500
Total	<u>115</u>			<u>1,976,754</u>		<u>21,106,422</u>		<u>23,083,291</u>
Benefits & Claims								
To Individuals	15,384		896,404		83,798,671			84,710,459
From State Sources			184,861					184,861
From Federal Sources					(2,122)			(2,122)
Total	<u>15,384</u>		<u>1,081,264</u>		<u>83,796,549</u>			<u>84,893,197</u>
Transfers								
Accounting Entity Transfers			33,203					33,203
Mandatory Trnasfers					648,060	190,186		838,246
Total			<u>33,203</u>		<u>648,060</u>	<u>190,186</u>		<u>871,449</u>
Debt Service								
Bonds						(10,686)		(10,686)
Total						<u>(10,686)</u>		<u>(10,686)</u>
Total Program Expenditures & Transfers-Out	\$ <u>10,436,156</u>	\$ <u>3,885,037</u>	\$ <u>8,076,479</u>	\$ <u>2,205,269</u>	\$ <u>91,198,850</u>	\$ <u>42,354,296</u>	\$ <u>420,202</u>	\$ <u>158,576,289</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund		\$ 159,264	\$ 869,678	\$ 24,690		\$ 917,232		\$ 1,970,864
Special Revenue Fund	\$ 8,890,853	1,071,312	6,932,331	2,180,579	\$ 6,894,093	41,268,263	\$ 420,202	67,657,633
Capital Projects Fund					503,646			503,646
Enterprise Fund			266,513		83,801,111	168,801		84,236,425
Internal Service Fund	1,545,303	2,654,461						4,199,764
Private Purpose Trust Fund			7,957					7,957
Total Program Expenditures & Transfers-Out	<u>10,436,156</u>	<u>3,885,037</u>	<u>8,076,479</u>	<u>2,205,269</u>	<u>91,198,850</u>	<u>42,354,296</u>	<u>420,202</u>	<u>158,576,289</u>
Less: Nonbudgeted Expenditures & Transfers-Out	7,765	56,892	(130,179)	4,226		5,768		(55,528)
Prior Year Expenditures & Transfers-Out Adjustments	36,682	6,506	1,444	142,149	124,940	754,521	(41)	1,066,201
Actual Budgeted Expenditures & Transfers-Out	<u>10,391,709</u>	<u>3,821,640</u>	<u>8,205,214</u>	<u>2,058,894</u>	<u>91,073,910</u>	<u>41,594,007</u>	<u>420,243</u>	<u>157,565,617</u>
Budget Authority	11,010,073	4,157,033	8,684,431	2,994,379	98,275,885	50,185,183	432,126	175,739,110
Unspent Budget Authority	\$ <u>618,364</u>	\$ <u>335,393</u>	\$ <u>479,217</u>	\$ <u>935,485</u>	\$ <u>7,201,975</u>	\$ <u>8,591,176</u>	\$ <u>11,883</u>	\$ <u>18,173,493</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund		\$ 203	\$ 51,883			\$ 17,996		\$ 70,082
Special Revenue Fund	\$ 585,172	118,525	370,275	\$ 935,485	\$ 655,282	8,548,221	\$ 11,883	11,224,843
Capital Projects Fund					347,804			347,804
Enterprise Fund			57,059		6,198,889	18,127		6,274,075
Internal Service Fund	33,192	216,665				6,832		256,689
Unspent Budget Authority	\$ <u>618,364</u>	\$ <u>335,393</u>	\$ <u>479,217</u>	\$ <u>935,485</u>	\$ <u>7,201,975</u>	\$ <u>8,591,176</u>	\$ <u>11,883</u>	\$ <u>18,173,493</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

PROGRAM (SUB- CLASS) NOT SPECIFIED	COMMISSIONER'S OFFICE/CSD	EMPLOYMENT RELATIONS DIVISION	JOB SERVICE DIVISION	OFFICE OF COMMUNITY SERVICES	NB	UNEMPLOYMENT INSURANCE DIVISION	WORKERS COMPENSATION COURT	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT								
Personal Services								
Salaries	\$ 1,585,294	\$ 3,346,995	\$ 10,233,766	\$ 142,918	\$ (34)	\$ 3,225,334	\$ 259,475	\$ 18,793,748
Other Compensation	5,550	6,150	310					12,010
Employee Benefits	384,741	898,013	2,800,509	37,331	(9)	863,042	60,882	5,044,510
Personal Services	(23,680)		4,521					(19,159)
Total	<u>1,951,905</u>	<u>4,251,158</u>	<u>13,039,106</u>	<u>180,249</u>	<u>(43)</u>	<u>4,088,376</u>	<u>320,357</u>	<u>23,831,108</u>
Operating Expenses								
Other Services	238,603	537,163	2,355,305	50,056		4,002,887	20,815	7,204,829
Supplies & Materials	170,198	391,294	1,112,339	7,275		188,978	5,199	1,875,283
Communications	59,519	194,399	388,854	10,685		412,582	4,083	1,070,122
Travel	32,948	174,270	494,683	63,269		51,670	6,915	823,755
Rent	145,123	387,942	515,303	2,694		95,960	21,586	1,168,608
Utilities		4,642	119,611			17,560	2,753	144,566
Repair & Maintenance	28,394	24,113	328,435	136		62,080	2,683	445,841
Other Expenses	\$ <u>1,698,358</u>	<u>102,821</u>	<u>(463,390)</u>	<u>1,210,604</u>	<u>(4)</u>	<u>347,607</u>	<u>22,454</u>	<u>2,962,601</u>
Total	<u>1,698,358</u>	<u>777,606</u>	<u>1,250,433</u>	<u>6,525,134</u>	<u>(4)</u>	<u>5,179,324</u>	<u>86,488</u>	<u>15,695,605</u>
Equipment & Intangible Assets								
Equipment	(5,689)	3,858	95,094	97,583		49,096		239,942
Total	<u>(5,689)</u>	<u>3,858</u>	<u>95,094</u>	<u>97,583</u>		<u>49,096</u>		<u>239,942</u>
Capital Outlay								
Land & Interest in Land			(131)					(131)
Other Improvements			26,500					26,500
Total			<u>26,369</u>					<u>26,369</u>
Grants								
From State Sources			165,723					165,723
From Federal Sources			15,730,160	1,542,619				17,272,779
From Other			159,971	5,144				165,115
Total			<u>16,055,854</u>	<u>1,547,763</u>				<u>17,603,617</u>
Benefits & Claims								
To Individuals		567,567				67,090,279		67,657,846
From State Sources		185,848						185,848
From Federal Sources		(450)				887,978		887,528
Total		<u>752,965</u>				<u>67,978,257</u>		<u>68,731,222</u>
Transfers								
Accounting Entity Transfers		30,754						30,754
Mandatory Transfers			187,978			431,805		619,783
Total		<u>30,754</u>	<u>187,978</u>			<u>431,805</u>		<u>650,537</u>
Debt Service								
Bonds			10,686			21,374		32,060
Leases						3,793		3,793
Total			<u>10,686</u>			<u>25,167</u>		<u>35,853</u>
Total Program Expenditures & Transfers-Out	\$ <u>1,692,669</u>	\$ <u>2,733,369</u>	\$ <u>6,380,404</u>	\$ <u>35,942,710</u>	\$ <u>(47)</u>	\$ <u>77,752,025</u>	<u>406,845</u>	<u>126,814,253</u>

PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund		\$ 158,063	\$ 876,116	\$ 851,870	\$ 24,894			\$ 1,910,943
Special Revenue Fund	\$ 1,685,991	914,994	5,609,805	34,905,641	1,881,384	\$ (47)	\$ 9,145,247	\$ 54,549,860
Capital Projects Fund			(113,523)	177,544			1,229,916	1,229,916
Enterprise Fund				7,655				64,021
Internal Service Fund	6,678	1,660,312					67,376,862	1,674,645
Expendable Trust Fund			8,006					67,384,868
Total Program Expenditures & Transfers-Out	<u>1,692,669</u>	<u>2,733,369</u>	<u>6,380,404</u>	<u>35,942,710</u>	<u>1,906,278</u>	<u>(47)</u>	<u>77,752,025</u>	<u>126,814,253</u>
Less: Nonbudgeted Expenditures & Transfers-Out	6,678	(33,799)	(799,897)	610,638	62,735	0	66,869,950	66,716,305
Prior Year Expenditures & Transfers-Out Adjustments	<u>1,685,991</u>	<u>(3,230)</u>	<u>(178,465)</u>	<u>(45,352)</u>	<u>(3,410)</u>	<u>(47)</u>	<u>1,112,384</u>	<u>2,567,871</u>
Actual Budgeted Expenditures & Transfers-Out	0	2,770,398	7,358,766	35,377,424	1,846,953	0	9,769,691	57,530,077
Budget Authority		3,415,152	8,643,946	43,257,494	2,127,616		11,729,857	69,592,948
Unspent Budget Authority	\$ <u>0</u>	\$ <u>644,754</u>	\$ <u>1,285,180</u>	\$ <u>7,880,070</u>	\$ <u>280,663</u>	\$ <u>0</u>	\$ <u>1,960,166</u>	\$ <u>12,062,871</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund		\$ 1	\$ 64,844	\$ 23,295				\$ 88,140
Special Revenue Fund		308,071	1,107,493	7,836,030	280,663		672,910	10,217,205
Capital Projects Fund							1,287,256	1,287,256
Enterprise Fund			112,843	20,018				132,861
Internal Service Fund		336,682		727				337,409
Unspent Budget Authority	\$ <u>0</u>	\$ <u>644,754</u>	\$ <u>1,285,180</u>	\$ <u>7,880,070</u>	\$ <u>280,663</u>	\$ <u>0</u>	\$ <u>1,960,166</u>	\$ <u>12,062,871</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Montana Department of Labor and Industry

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2002

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1.

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#### Summary of Significant Accounting Policies

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##### Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental and Expendable Trust Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for Proprietary Funds and Fiduciary Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

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##### Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The 2001 Legislature modified the fund structure established in section 17-2-102, MCA, to implement the changes made to generally



## Notes to the Financial Schedules

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accepted accounting principles by Governmental Accounting Standards Board (GASB) Statement 34. These changes were effective July 1, 2001. Department accounts are organized in funds according to state law. The department uses the following funds:

### **Governmental Funds**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund. The department's General Fund financial activity records support from the state to operate the following programs: Human Rights Commission, Silicosis Benefits, Displaced Homemakers, and Jobs for Montana Graduates.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Department activity recorded in the Special Revenue Funds is primarily related to federal assistance programs. The federal assistance programs include U.S. Department of Labor Employment Service programs, Workforce Investment Act programs, Job Training Partnership Act Programs, and Corporation for National and Community Service Programs. In fiscal year 2001-02, the Business Standards Division was added to the department. The division accounts for the professional and occupational licensing boards that were transferred from the Department of Commerce.

**Debt Service Fund** - to account for accumulated resources for the payment of General Long-Term Debt principal and interest. The department did not use this fund in the audit period. Activity reflects residual in-flow in fiscal year 2000-01 and a transfer in fiscal 2001-02 to close the fund.

**Capital Projects Fund** - to account for resources used for purchase or construction of major capital facilities. The department uses this fund for bonded costs associated with programming its new unemployment benefits system, MISTICS.

### **Proprietary Funds**

**Internal Service Fund** - to account for providing goods or services to other agencies or departments on a cost-reimbursement basis. Department Internal Service Funds include funds to cumulate and distribute indirect costs.

**Enterprise Fund** - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. Department Enterprise Funds include the Unemployment Insurance Fund in fiscal year 2001-02 and the Subsequent Injury Fund.

### **Fiduciary Funds**

**Expendable Trust Fund** – the department used this fund to account for the Unemployment Insurance program in fiscal year 2000-01. With the changes in the fund structure made on July 1, 2001, to implement the changes made by GASB Statement 34, the Expendable Trust Fund type ceased to exist.

**Investment Trust Fund** – to account for the external portion of investment pools. The department investment trust funds include securities held in trust for insolvent or bankrupt Plan One and Plan Two Workers' Compensation insurers to honor any future Workers' Compensation liabilities related to the insurers.

**Agency Fund** – to account for resources held by the state in a purely custodial capacity. The department accounts for Workers' Compensation self-insured employer's security deposits in the Agency Fund.

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### **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in a negative ending General Fund balance at June 30, 2001 and June 30, 2002.

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### **3. Expenditure Program (Sub-class)**

The program designations in the Schedules of Total Expenditures & Transfers-Out are based on the sub-class designation used when the expenditures were recorded. The accounting system did not require agencies to code non-budgeted accounts with a subclass code

## Notes to the Financial Schedules

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identifying the expenditure program in which the activity occurred until September 2000. This non-budgeted activity entered without a subclass is included in the column titled Program (Sub-Class) Not Specified on the Schedules of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2001.

### 4. **Direct Entries to Fund Balance**

Direct entries to fund balance in the General Fund includes entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Because of the modifications in the fund structure, the account for the Unemployment Insurance program changed from being accounted for in the Expendable Trust Fund in fiscal year 2000-01 to the Enterprise Fund in fiscal year 2001-02 as mentioned in Note 1. On the state accounting records, the closing out of the Unemployment Insurance program ending 2000-01 fund balance of \$177,039,424 flowed through the Special Revenue Fund prior to being recorded in the Enterprise Fund. This accounts for the majority of the (\$167,003,423) Direct Entries to Fund Balance additions in the Special Revenue Fund and the majority of the \$176,283,759 Direct Entries to Fund Balance additions in the Enterprise Fund on the Schedule of Changes in Fund Balances & Property Held in Trust for the fiscal year ended June 30, 2002.

### 5. **Enterprise Fund Investment Earnings**

The department recorded \$18,886,734 of Reed Act federal assistance and \$6,552,300 of reimbursements for federally mandated extended unemployment benefits as interest earnings in the Unemployment Insurance Enterprise Fund. These revenues should be classified as federal rather than investment earnings on the Schedule of Revenue & Transfers-In for the Fiscal Year Ended June 30, 2002. Total revenue in the Enterprise Fund was not affected.

## **Department Response**

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Governor Judy Martz

# Montana

## Department of Labor and Industry

### Centralized Services Division

November 6, 2002

Scott Seacat  
Legislative Auditor  
PO Box 201705  
Helena MT 59620-1705

Dear Mr. Seacat:

Enclosed please find the Department of Labor and Industry's written response to the final report on the audit for the two fiscal years ended June 30, 2002.

Sincerely,

  
Tammy Peterson  
Administrator

Enc.

**Financial Compliance Audit Response**  
**Centralized Services Division**  
**November 6, 2002**

**Recommendation #1:**

**We recommend the department:**

- A. Record accounting transactions in accordance with state law and policy.**
- B. Implement an oversight control procedure to detect and correct accounting errors.**

Concur. The Centralized Services Division will record accounting transactions in accordance with law and policy, and will develop and implement an oversight plan that will detect and correct accounting errors.

**Unemployment Insurance Trust Revenue Misclassification**

The Unemployment Insurance revenue misclassification occurred because department employees were unaware that they could request new revenue accounts, and believed they had to utilize the best fitting existing account code. Department employees are now aware that new account codes can be requested as needed. On September 26, 2002, the department moved UI revenue to the newly created revenue accounts, which resolves the audit issue.

**Subsequent Injury Fund Estimated Claims Liability**

The department is studying the Subsequent Injury Fund (SIF) in its entirety because of statutory changes in 1995 that established the SIF as a "pay as you go" funding mechanism. Once the department concludes its analysis of the SIF, it will consult with the Department of Administration to determine which fund type is most appropriate for the SIF.

**Property Held in Trust**

The department has an Uninsured Employers' Fund (UEF) task force that has been reviewing the business practices in the UEF accounting function for the past six (6) months. The group is exploring moving the property held in trust entries to the SABHRS Accounts Receivable module, which will eliminate the improper use of the property held in trust account.

**Insurer Deposits**

The department will adjust its accounting records to reflect the return of \$285,000 in insurer deposits pursuant to § 39-71-2206 having been repealed.

**Duplicate Revenue Recognition**

The department failed to reverse recorded accounts receivable in the Industrial Accident Rehabilitation Account when those payments were made. The department will adjust the accounting records to reflect the reversal.

### Expenditure Classification Error

The department incorrectly recorded Apprenticeship and Training program grants as grants from federal sources because department employees did not realize the difference between the expenditure account codes used. The department is now aware of the differences, and future grants will be recorded correctly.

### Uninsured Employers Fund Receivable

As with the property held in trust issue, the department is addressing UEF accounting practices, including the UEF receivable issue, through the use of an internal task force that proposes moving the UEF accounting function to the SABHRS Accounts Receivable module. This should allow the department to accurately record accounts receivable when they are legally collectable.

### Unemployment Insurance Fund Cash

Prior to July 1, 2001, the department classified the UI Trust activity in an Expendable Trust Fund. This was a non-budgeted fund and therefore had no appropriation or revenue estimate. When the activity moved to an Enterprise Fund, it went into a fund that was now budgeted. The department continued to use the Expendable Trust Fund for all prior year transactions, since no budget existed in State Fiscal Year (SFY) 2002 in the new Enterprise Fund. Department staff did transfer all activity to the Enterprise Fund on August 29, 2002. Department employees now realize that the transactions should occur prior to fiscal year end closing.

The department reconciles the UI benefits bank account monthly. However, in late SFY02, the department failed to promptly record two payments on SABHRS. Department staff made the accounting entry on September 13, 2002, rectifying the error.

### **Recommendation #2:**

**We recommend the department follow the cash management improvement act agreement in drawing federal funds for administrative costs.**

Concur. The department recognized the problem and took steps to resolve the problem prior to the end of the audit period. By April 2002, the department had trained staff in CMIA requirements to ensure compliance with the agreement.

### **Recommendation #3:**

**We recommend the department develop controls to minimize risk of unallowable payments to Trade Adjustment Assistance participants.**

Concur. The department instructed staff and local office managers to immediately cease the practice of obtaining pre-signed Trade Adjustment Assistance (TAA) forms. All existing pre-signed forms have been removed from participant files and destroyed. The department has



added this item to its existing monitoring tool to minimize the risk of unallowable payments to TAA participants.

**Recommendation #4:**

**We recommend the department assign staff responsibilities for fixed asset accounting to improve controls over fixed asset records.**

Concur. The department is in the process of developing procedures to properly apportion and track the federal ownership share of property so that the federal ownership share can be determined at the time of disposal. The department will implement controls and procedures to meet federal requirements related to disposal of assets purchased with federal funds. On October 24, 2002, the department adjusted its records to reflect the actual value of a building, thereby rectifying the asset overstatement. It will adjust asset values for those items removed from service, but not yet been disposed of or sent to Surplus Property.

**Recommendation #5:**

**We recommend the department prepare and submit its unemployment benefits quarterly ETA 227 report on a timely basis.**

Concur. By September 2002, the Unemployment Insurance Division had prepared the quarterly 227 reports and submitted them electronically to the USDOL, except for the second quarter 2001. That quarter has data conversion issues, and had to be submitted on paper, rather than electronically. The department will submit all future 227 reports electronically and on time.

**Recommendation #6:**

**We recommend the department instruct the Department of Revenue to deposit collections from offsets for benefit overpayments in the clearing account as required by law.**

Concur. The department will instruct the Department of Revenue to deposit offsets for benefit overpayments into the clearing account.

**Recommendation #7:**

**We recommend the department develop fees commensurate with costs for directly billed information services.**

Concur. The department will reconcile the fund and apply any overcharge to current year billings. The department will conduct an annual reconciliation to assure participating program charges are limited to services received.

### **Recommendation #8:**

**We recommend the department:**

- A. Comply with applicable laws for boards and licensing programs.**
- B. Implement procedures to improve consistency of fee revenue recorded for the Boards of Pharmacy, Nursing Home Administrators, and Outfitters.**

Concur. Since being transferred to the department (July 1, 2001), many boards have undertaken a thorough review of their statutes and rules. The reviews have resulted in updating administrative rules through the administrative rulemaking process and the department is submitting a housekeeping bill to the 2003 Legislature to update statutes as needed. For example, the proposed bill removes language from § 37-19-303, MCA, that the annual examination be held on the second Wednesday of July. The department has requested all boards complete their review of statutes and rules in time to allow for any further legislative updates to be made during the 2005 legislative session.

Additionally, the Board of Funeral Services is scheduled to meet in January 2003. At that time the Board will review a proposed rule defining "hazardous implants" and a proposed fee setting methodology rules for cemetery audits.

The Board of Chiropractors will be pursuing legislation in 2003 to amend § 37-12-302, MCA. The amendment will remove the requirement that an application must be received 21 days prior to a meeting of the board. The Board missed the deadline for the proposal to be included in the department's housekeeping bill. Further, the Board is scheduled to meet in December 2002 to review a proposed rule that sets forth the license form and displaying requirements.

The Board of Pharmacy has redesigned and implemented the use of a new wholesale drug distributor license application that meets statutory requirements.

The Business and Occupational Licensing Bureau and the Health Care Licensing Bureau will conduct an internal review of fee structures and revenue ID codes currently used. The boards will implement procedures to ensure that revenue is consistently deposited in the correct revenue codes. The licensing bureaus are exploring the use of bar coding for deposits to ensure better accuracy. Additionally, the licensing bureaus are researching modification to the Oracle database by TRW to tie a specific dollar amount to each revenue code used that would alert the user and ask for specific verification if a different revenue amount is entered.

### **Recommendation #9:**

**We recommend the department:**

- A. Adopt rules for Child Labor laws in compliance with § 41-2-117, MCA, or**
- B. If necessary, seek an amendment to the statute requiring the adoption of rules governing Child Labor laws to make rule making permissive.**

Concur. The department will adopt rules for Child Labor laws in compliance with § 41-2-117, MCA. The department has not requested approval to amend the statute making the adoption of

rules permissive. If an opportunity arises during the 2003 session to propose legislation that would make adoption of rules permissive, the department will pursue that legislative change, as well.

**Recommendation #10:**

**We recommend the commissioner:**

- A. Prescribe duties, appoint members, and require meetings of the committee in compliance with § 2-15-1708, MCA, or**
- B. Seek legislation to eliminate the requirements related to the Safety Employment Education and Training Advisory Committee.**

Concur. The department will seek to amend its workers' compensation housekeeping bill to eliminate the requirements related to the Safety Employment Education and Training Advisory Committee. The department believes there is no longer a need for this committee.